



CalPERS Diversity Outreach Program

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AGENDA ITEM 16

TO: CalPERS Board of Administration

- I. SUBJECT:** Diversity Update
- II. PROGRAM:** Diversity Outreach Program, Investment Office, and Legal Office
- III. RECOMMENDATION:** Information Item
- IV. ANALYSIS:**

The purpose of this agenda item is to provide an overview and current status of the Diversity Outreach Program and the Investment and Legal Office's diversity efforts.

Background

As a global investor, public employer, and provider of retirement and health benefits services within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity as a competitive advantage that calls for the broadest possible pool of talent, experience, and perspective. The CalPERS Board of Administration acknowledged this by including diversity as an element in our Strategic Plan.

Small Business and Disabled Veteran Business Enterprise Contract Participation - Fiscal Year 2009-10 Annual Report

CalPERS currently reports its Small Business (SB) and Disabled Veteran Business Enterprise (DVBE) contract participation levels (attachment) to the Department of General Services which in turn reports to the Legislature and the Governor. As a result, this agenda item is for informational purposes only and does not require Board action.

Disabled Veteran Business Enterprise Contract Participation

In 1990, the Board of Administration adopted the provisions of Public Contract Code (PCC) sections 10115, et seq., and accordingly established an annual DVBE contract participation goal of not less than 3 percent.

During Fiscal Year (FY) 2009-2010, CalPERS achieved a total DVBE participation level of 2.40 percent. Deep analysis of this number reveals encouraging facts. First, the overall DVBE participation level has increased .71 percent from last year. Second, CalPERS *exceeded* its DVBE participation goal in two of the three categories reported on—IT Goods and Services and Non IT Goods. The one category CalPERS didn't meet its goal in—Non IT Services—includes CalPERS-unique Health Benefits Branch (HBB) and Investment Office (INVO) contracts which accounted for more than 50 percent of the FY 2009-2010 spending (\$193 million of \$362 million) and do not lend themselves to consistent DVBE participation.

The impact of these contracts on our participation levels is so large that when the HBB and INVO contracts are removed from the equation, CalPERS overall participation level is *more than* three percent at 5.13 percent. Despite the inherent challenges, CalPERS remains committed to achieving the DVBE goal.

The size and nature of the HBB and INVO contracts typically preclude them from DVBE participation.

For example, CalPERS largest HBB-related contracts represented approximately \$90 million or 25 percent of CalPERS total FY 2009-2010 contract spending. Because of HIPAA laws many vendors for the larger health benefit contractors can't, or won't, use subcontractors for CalPERS contracts. This reality negatively affects CalPERS overall DVBE participation levels.

The DVBE participation levels are also adversely affected by our large Investment-related contracts which totaled about \$100 million, or 28 percent, of CalPERS total FY 2009-2010 contract spending.

CalPERS DVBE participation has dramatically improved since FY 2008-09, due, in part, to the July 2009 elimination of the Good Faith Effort (GFE). This upward trend is expected to continue as multi-year contracts that include GFE expire.

Highlights for FY 2009-2010 DVBE participation include:

- 7.02 percent for the procurement of IT goods and services
- 4.05 percent for the procurement of non-IT goods
- 2.40 percent for all contracting activity (combined volume of all goods and services)
- 1.33 percent for the procurement of non-IT services.

Certified Small Business Contract Participation

CalPERS contract participation goal of 25 percent for certified SBs is encouraged by Governor Schwarzenegger's Executive Order S-02-06. CalPERS SB participation levels are also compromised by the size and nature of CalPERS-unique INVO and HBB contracts, which are not conducive to SB participation.

During FY 2009-2010, CalPERS achieved an overall SB participation level of 11.69 percent. Again, at first glance, CalPERS SB participation level may seem low, but deeper analysis is encouraging. CalPERS *exceeded* its SB participation goal in two of the three categories reported on – IT Goods and Services and Non IT Goods. The category CalPERS showed the biggest deficit in—Non IT Services—includes CalPERS-unique HBB and INVO contracts which accounted for more than 50 percent of our FY 2009-2010 spending (\$193 million of \$362 million) and do not lend themselves to SB participation.

The impact of these contracts on our SB participation level is so large that when they are removed from the equation, CalPERS SB participation level is approximately 25 percent. Despite the inherent challenges, CalPERS remains committed to achieving the SB goal.

For example, the sheer size and unique nature of our INVO contracts typically precludes the use of Small Businesses. These contracts totaled approximately \$100 million, or 28 percent, of CalPERS spending, in FY 2009-2010.

Similarly, CalPERS-unique HBB contracts also do not lend themselves to SB participation, because of the size and confidential nature of the service provided. Our two biggest HBB contracts reported account for roughly \$90 million, or 25 percent of CalPERS spending, in FY 2009-2010.

Highlights for FY 2009-2010 SB participation include:

- 46.84 percent for the procurement of IT goods and services
- 26.78 percent for the procurement of non-IT goods
- 11.69 percent for all contracting activity (combined volume of all goods and services)
- 3.49 percent for the procurement of non-IT services.

Reporting Criteria

The DVBE and SB data reflect participation levels using CalPERS Board of Administration reporting criteria, which includes the FY 2009-2010 portion of multi-year contracts that were in force during the reporting period, but were not necessarily executed in the same period. This differs from DGS reporting criteria, which asks for “the total value, in whole dollar amounts, of all contracts with any non-governmental entity, issued or charged during the reporting period, for each category...”

Accomplishments

- Participated in outreach events and shared CalPERS message of supplier diversity with approximately 1,000 business representatives;
- Provided personal assistance to uncertified businesses and encouraged and assisted them in getting certified through the Department of General Services State Small Business and Disabled Veteran Business Enterprise Certification program;
- Presented CalPERS small business and disabled veteran business enterprise participation goals and program to individual divisions, including staff and management; and
- Partnered with OSSD and ITSB in conducting bidder’s conference for the SFP Information Technology RFP and providing network opportunities for SB and DVBE vendors.

Future Plans

- Collaborate with CalPERS Operations and Support Services Division (OSSD) to encourage our contractors and suppliers to become certified at the time of bid (prior to contract or purchase order approval dates).
- Strengthening an internal campaign to further promote the program and encourage CalPERS staff to use certified SB and DVBEs for products and services currently being provided by non-certified companies, providing that products, services, pricing, distribution, and service levels are comparable.
- Collaborate with OSSD to conduct bidder's conferences to provide networking opportunities for SB and DVBEs.
- Enhancing SB/DVBE marketing materials.
- Collaborate with OSSD and Executive Office to strengthen the SB/DVBE program through policy development. Such as:
- Using the SB/DVBE Option for CalPERS contracting and procurement opportunities more frequently and consistently;
- Providing information to encourage certification to each prospective vendor in every solicitation for contract bid.
- Requiring all office supplies and consumables to be purchased through certified SB and DVBE firms.
- Work with the HBB and INVO to identify SB and DVBE contract participation opportunities and encourage participation whenever possible
- Participate in business tradeshow, conventions and events to promote CalPERS contracting opportunities (often partnering with the Department of Veteran's Affairs and/or the Department of General Services).

Diversity Outreach Program - Internal Operations

Senior Management Working Group on Diversity

The working group continues to meet quarterly to advance CalPERS commitment to diversity by supporting the development and implementation of enterprise initiatives and outreach efforts.

1st Quarter Accomplishments:

- Inclusion of diversity into the 2010-11 Enterprise Business Plan, Building Internal Strength, Objective 3.2
- Providing input into the 2010-11 Diversity and Inclusion Strategic Plan – in process

Education and Outreach

In August, the CalPERS Diversity Outreach Committee hosted its 6th Annual Cultural Diversity Day. This event helps raise the overall organizational awareness and understanding of various cultures and ethnic identities within CalPERS and its community. This year's theme of "Growth" highlighted how rice, an international food staple, fosters growth in cultures throughout the world.

To promote more diversity in the workforce staff consulted with Fritzie Archuleta from the Actuarial and Employers Services Branch on their talent pipeline efforts. Ms. Archuleta is the first west coast representative for the Society of Actuaries. The Society's mission is to facilitate the evolution of a multi-dimension actuarial profession by recruiting quality mathematical and analytical talent from the African-American, Hispanic, and Native American Communities.

Ms. Archuleta's goal for the organization is to develop a program to reach out to young adults from underserved communities and introduce them to the actuarial field. This project is in its early stages. A variety of outreach methods and tools will be included such as:

- Presentations to high school students
- College recruitment opportunities

Also, the Human Resources Services Division (HRSD) staff plans to participate in several recruitment fairs and expos between now and the end of the calendar year. The events are focused recruitment efforts targeting:

- Military veterans
- General public
- Diversity (including those with disabilities)
- College students from all majors

To ensure employee understanding of diversity and inclusion the CDOP and HRSD staff are working closely together to assess current enterprise training classes and resources so content is in alignment with CalPERS initiatives. Training and resources under review are:

- New Employee orientation
- New Leader Orientation
- Managing Conflict
- Understanding Yourself and others
- Person-to-person
- Leadership Essentials and Direction for Your Emerging Role

Investment Office

Global Equity Unit

Internal Equity

Internal Equity embarked on an initiative to improve both the equity brokerage business model, and the ability to provide opportunities to a diverse set of counterparties. Broker selection and allocation was performed on an ad-hoc basis prior to 2008, which resulted in an excessive number of counterparties, thereby also reducing meaningful opportunity creation for “targeted” (Minority, Women, Disabled and Veteran or “MWDV”) brokers.

Beginning in 2008, the unit’s internal brokerage staff collaborating with Mosaic Investment Advisors, a CalPERS diversity consultant, built and rolled-out a new model incorporating dual goals of running an effective and sustainable business as well as providing opportunities for targeted brokers. As outlined in the April 29, 2009 Investment Committee Agenda Item 8b, process improvements consolidated agency relationship assignments among Core, Development and Queue category levels that are reviewed and evaluated on a semi-annual cycle.

We continue to achieve dramatic results as the targeted share of total domestic commissions paid as of June 30, 2010 has increased to approximately 48% which is a new high for CalPERS. We have invited Warren Henderson of Mosaic Investment Advisors, a CalPERS diversity consultant, to present highlights of the program and share his views on its effectiveness.

External Equity

In 2007, The Risk Managed Absolute Return team launched the Fund of Emerging Hedge Funds Program (FoHFs) allocating a total of \$450 million in assets to invest in an underlying portfolio of smaller, more nimble, skill-based hedge fund managers that possess a high degree of alpha generating potential. Manager selection is based solely on expected future returns in conjunction with clear understanding of each manager’s risk/return profile.

The program has partnered with three MWDV-owned specialist investment management firms. An additional \$100 million allocation to FoHFs was made in May of 2010 and split evenly between two of the three firms, The Rock Creek Group and 47° N Capital Management. This funding brings the total allocated capital up to \$550 million since inception of this program.

We shall highlight similarly as our above feature presentation the overall progress of FEHFP during upcoming quarterly reporting cycles.

Corporate Governance

The 2010 Roadmap consists of several strategic initiatives including Financial Market Reform. CalPERS played an integral role in crafting the landmark financial reform bill that was signed by President Obama this quarter. Additionally, the Securities and Exchange Committee approved proxy access rules that give shareowners a bigger voice in board elections at U.S. public companies.

Creating a new diverse pool of talent for boards is among the goals within the Financial Market Reform strategic initiative building upon the diversity initiative adopted by CalPERS Board in April 2008 to address diversity in the corporate boardroom.

Through this initiative, a broad coalition of interested parties, we have dubbed as “The Alliance”, was brought together to help build consensus and generate ideas around the Diverse Director Database (3D) project as well as provide potential candidate leads. With input from CalSTRS, a subset of individuals from The Alliance was selected to join the Advisory Panel whose role is to leverage their collective expertise and feedback in guiding the 3D initiative.

Following the June 18, 2010, Wall Street Journal feature article on 3D, a mailbox (DiverseDirectorDatabase@calpers.ca.gov) was established to warehouse 3D related inquiries and resume submissions. CalPERS has received approximately 80 inquiries, including nearly 60 resumes. Currently, Global Equity Unit senior staff is evaluating internal resources, consulting and advisory service options toward building out 3D, including mechanisms such as background searches to further vet potential 3D candidates, and nominating an Investment Officer to be responsible for diversity on the team.

Future Activities

External Equity

The external Equity team launched the Emerging Manager Fund of Funds Program (EMFoF) allocating \$700 million in assets to small and emerging public equity firms. Through an RFP process, a spring fed-pool of emerging manager fund of funds specialists was created who in-turn select underlying long-only public equity strategies. Two EMFoF specialist advisors among the pool candidates were funded in March of 2008. Both firms are MWDV-owned firms. A third firm within the pool, also MWDV-owned, Progress Investment Management Company has demonstrated improved capabilities since their initial evaluation. It is anticipated that an allocation of \$100 million out of the \$700 million allocation to the program shall be funded with Progress during this quarter.

Corporate Governance

CalPERS and CalSTRS will be co-hosting a fifth workshop for the 3D initiative prior to the start of the Council of Institutional Investors (CII) fall meeting on September 19, 2010, in San Diego, CA. In addition to the two workshops in 2009, consisting of members from the Alliance organizations, two additional workshops have taken place during 2010 with the Advisory Panel, a subset of the Alliance. This third Advisory Panel meeting is a follow-up to the June 18, 2010, workshop at Yale University where a draft candidate questionnaire was developed for purposes of initial screening before acceptance into 3D.

Legal Office

The Legal Office's Diversity Project seeks to increase diversity within the pool of outside counsel with which CalPERS contracts for legal services, so that the pool reflects California's diverse population, provides a broad spectrum of experience, talent, viewpoints and strategies, and elevates the professional expertise available to the CalPERS system through contracting opportunities.

The CalPERS 2010-11 Business Plan recently approved by the Board includes a specific initiative designed to improve outside counsel diversity. The initiative provides that by June 30, 2011, the Legal Office will expand external legal counsel contracts by creating pools in at least four specialty areas through the addition of firms reflective of California's diverse population.

To achieve the initiative set forth in the 2010-11 Business Plan, the Legal Office will create pools of outside counsel firms in the specialty areas of:

- Health Care Law
- Labor/Employment
- Business Litigation
- Family Law/Community Property

A solicitation for Health Care counsel was released on August 6, 2010, and responses to the solicitation were due on September 9, 2010. The solicitation for Labor/Employment counsel is scheduled to be released on September 20, 2010; for Business Litigation counsel on December 8, 2010; and for Family Law/Community Property counsel on January 17, 2011. The Legal Office will have contracts with firms in place for these four specialty areas on or before June 30, 2011.

STRATEGIC PLAN:

This agenda item is in alignment with the following Strategic Goals:

- II. Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability;
- III. Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies;
- IV. Design and develop education and communication initiatives to ensure broad member and stakeholder understanding of CalPERS values; and
- IX. Achieve long term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

This agenda item will result in regular program costs only.

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